The skilled nursing facility (SNF) payment system

Presentation to Senate Committee on Finance staff

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MEDPAC Medicare Payment Advisory Commission

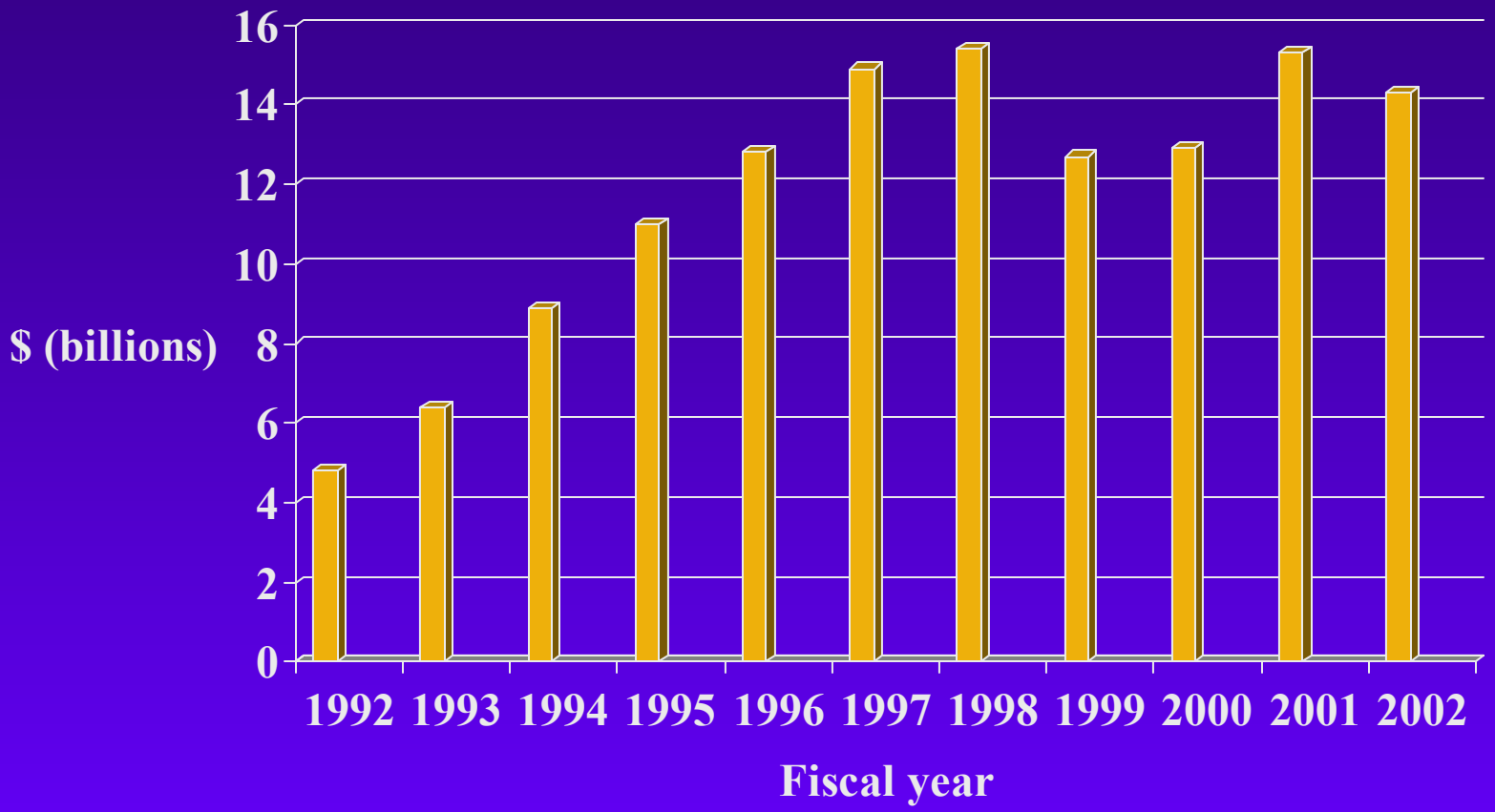
Key points

- Coverage of Medicare SNF services
- History of the SNF payment system
- How the payment system works
- Issues
  - Payments not distributed appropriately to account for patients' expected resource needs
  - Refinement of SNF classification system required by law
  - Cross-subsidization of Medicaid

Overview of SNF sector in 2001

- 1.4 million beneficiaries
- Medicare program spending of $15.3B
  - (6.5% of Medicare total)
- 14,755 Medicare-certified providers
- Growth rate of Medicare SNF spending
  - 13 percent (1992-2002)
  - 3 percent (revised 2002-2007)

Medicare spending on SNFs, 1992-2002



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Eligibility for SNF services

To be eligible, beneficiaries

- must have had a hospital stay of at least 3 days within the past 30 days
- must need short-term skilled nursing or rehabilitation services in an inpatient setting

Medicare SNF coverage

- Medicare covers up to100 SNF days in a spell of illness

  Spell of illness:

  - begins with at least 3 days in acute hospital
  - ends with 60 days of no hosp. or SNF stay
- Days 1-20: Medicare pays 100%
- Days 21-100: beneficiary pays $105 per day (2003)

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Definition of a SNF

- Freestanding SNFs:
  - 90% of all SNFs
  - located in nursing homes
  - many also provide long-term care to Medicaid and private pay patients
  - Medicare makes up 10-12% of revenues
- Hospital-based SNFs:
  - 10% of all SNFs
  - located in acute care hospitals
- "Medicaid-only" nursing homes do not provide SNF services

History of SNF payment system

- Before 1998, SNFs paid based on their reported costs (subject to some limits)
- Starting with the first reporting period after July 1998, SNFs became subject to the SNF prospective payment system
- The prospective payment system was phased-in over 4 years (1998-2001)

Cost limits before 1998

- Limits on routine operating costs (e.g., room and board)
- No limits on ancillary service costs (e.g., physical therapy)
- Separate limits for urban and rural SNFs and for freestanding and hospital-based SNFs
- New SNFs were exempt from routine cost limits for up to their first four year of operation
- Other facilities could be exempted from limits

Phase in of the SNF PPS

- FY1998- payments=25% federal rates and 75% facility-specific rates
- FY1999- payments= 50%/50%
- FY2000- payments= 75%/25%
- FY2001- payments= 100% federal rates
- BBRA of 1999 allowed SNFs to elect to receive the full federal payment rate before 2001

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Federal (PPS) payment rates

- Per diem rates
- Based on average allowable costs in 1995 (trended forward to 1998 using SNF market basket-1)
- Intended to cover all SNF routine, ancillary, and capital-related costs (except approved educational activities)
- Adjusted for case-mix (RUG-III) and local wage market conditions (wage index)

Components of SNF payment rates

- Routine services- fixed amount covering such services as room and board, linens, and administrative services
- Nursing care- variable amount reflecting patients' expected intensity of nursing care and ancillary service needs
- Therapy- variable amount for patients' expected intensity of therapy service needs

What are resource utilization groups (RUG-III)?

- RUG-III groups identify patients with similar service needs who are expected to require similar amount of resources
- Medicare assigns patients to one of 44 RUG-III groups
- Periodic assessments of each patient's condition determine the patient's RUG-III group

Assignment to RUG-III groups

Patients are classified into RUG-III groups based on:

- Need for therapy (i.e., physical, occupational, or speech therapy)
- Special treatments (e.g., tube feeding)
- Functional status (e.g., ability to feed self and use the toilet)

Assigning patients to RUG groups

Example:

Rehabilitation, ultra high – 720+ minutes of therapy/week, at least 2 types of therapy

	ADL index
RUC	16-18
RUB	9-15
RUA	4-8

Calculation of skilled nursing facility payment

- Payment=1.0 x routine component +
  nursing wght x nursing component +
  therapy wght x therapy component
- Base payments computed separately for urban and rural areas
- Wage index adjustment
- Add-on payments

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SNF payment add-ons

Expired:

- 4% increase for all rates, April 2000-September 2002
- 16.66% increase for the nursing component, April 2001-September 2002

Currently applied:

- 6.7% increase for 14 rehab groups; 20% increase for 12 complex care groups, April 2000 until CMS revises RUG-III classification system

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Problems with the SNF payment system

- Classification systems fails to collect all information necessary to classify Medicare patients appropriately
- Classification system lacks inter-rater reliability
- Patient classification relies on service use (therapy) rather than expected resource needs
- Relative weights may not fully capture differences in expected resource use

Key issues in SNF sector

- Payments not distributed appropriately to account for patients' expected resource needs
- Refinement of SNF classification system required by law
- Cross-subsidizing Medicaid